








Lesson Plan

Income – Retirement Income; Form 1040, Lines 15-16

Time Required: 45 minutes

Introduction	Objectives	Topics
This lesson will help tax preparers identify and report the taxable portion of the taxpayer's retirement income.	Identify how retirement income is reported to the taxpayer using Form 1099-R series.	  Retirement Income Documents
	Calculate the taxable portion of different types of retirement income.	 Retirement Plan Distributions Taxable IRA Distributions
	Determine how to report retirement income on the tax return.	Reporting IRA Distributions Taxable Pensions and Annuities
	Determine when an adjustment to withholding should be made.	Other Retirement Income Issues
		  When to Adjust Withholding

Key Terms

Annuity: A series of payments under a contract from an insurance company, a trust company, or an individual. Annuity payments are made at regular intervals over a period of more than one full year.

After-tax Contributions: After-tax means the employee paid taxes on the money when it was contributed, i.e., the taxpayer has a cost basis in the plan.

Before-tax Contributions: Before-tax simply means that the employee did not pay taxes on the money at the time it was contributed, i.e., the taxpayer has no cost basis in the plan.

Excludable Income: Income that is not included in the taxpayer's gross income and therefore exempt from federal income tax. Certain income may be exempt from tax but must be reported on the tax return.

Form W-4P: Withholding Certificate for Pension or Annuity Payments. The form allows taxpayers to tell payers the correct amount of federal income tax to withhold from payments.

Form W-4V: Voluntary Withholding Request, filed by taxpayers (or estates) who are recipients of social security benefits and want to request withholding from their payments from the Social Security Administration.

Individual Retirement Arrangement (IRA): A tax-sheltered retirement savings plan set up by the taxpayer.

Lump-Sum Distribution: A lump-sum distribution is the distribution or payment within one tax year of an employee's entire balance from all qualified pension, stock bonus, or profit-sharing plans that the employer maintains.

Railroad Retirement Benefits (RRBs): Benefits paid to railroad retirees covered by the Railroad Retirement Act. The RRA has two components. Tier 1 is the equivalent of social security benefits and Tier 2 is like an employer's pension plan.

Required Minimum Distribution (RMD): The amount that must be distributed each year from a retirement plan or IRA.

Retirement Income: Retirement income can include social security benefits as well as any benefits from annuities, retirement or profit sharing plans, insurance contracts, IRAs, etc. Retirement income may be fully or partially taxable.

Rollover: Generally, a rollover is a tax-free distribution to the taxpayer from one retirement account (traditional IRA or employer's pension plan) that rolls over into a similar retirement account within 60 days.

Simplified Method: This method is used to calculate the tax-free portion of each pension or annuity payment.

Teacher Tips

Guidelines for Lesson

Guideline	Instructor Notes	Presentation Aids
Lesson background info	Review the online demo of TaxWise on Income.	TaxWise® Demo: From the Practice Lab, select: <ul style="list-style-type: none"> • TaxWise IRS training • TaxWise Desktop Preparer with VITA/TCE Training menu or the Taxwise Online Preparer with VITA/TCE Training menu • Click the Income button, then select Part 2
Provide details and engage the students	Discuss all tips and cautions in detail. Ask students to read and/or role-play examples and sample interviews. Review answers to each exercise; ask students how they arrived at their answers.	Internet: Link & Learn Taxes (L<) Income – Retirement Income; Form 1040, Lines 15-16

Topic-specific Tips

Topic Name	Instructor Notes	Presentation Aids
Introduction	<p>Review lesson objectives.</p> <p>Point out that this lesson is one of the nine lessons on income.</p> <p>Review list of references.</p> <p>State the presentation time.</p> <p>Remind students this lesson does not cover social security benefits or tier 1 railroad retirement benefits (this is covered in another lesson).</p> <p>Remind students when reviewing Form 13614-C with taxpayers to clarify the type of retirement plan (i.e., whether the income was before-tax or after-tax dollars).</p> <p>Discuss key terms used in this lesson.</p> <p>Direct students to Pub 4012, Table A – Examples of Taxable Income and point out types of retirement income.</p>	<p>Visuals:</p> <p>Form 1040, Page 1 Income section</p> <p>Form 13614-C, Page 2, Part III</p> <p>Forms 1099-R, 5329, 8606</p> <p>Pub 4012, Income tab, Table A – Examples of Taxable Income</p> <p>Pub 17, Chapters 10 and 17</p> <p>Internet:</p> <p>YouTube video: How IRAs Help to Increase Your Retirement Savings</p> <p>YouTube video: IRA Investment Decisions – What You Need to Know</p>
Retirement Income Documents	<p>Use the Landing Page questions to prompt students to share what they know about retirement income.</p> <p>Review L&LT topic Retirement Income Documents.</p> <p>Ask students to identify forms used to report retirement income.</p> <p>Ask students what they know about the Form 1099-R series.</p> <p>Emphasize that Basic certified volunteers can complete the return only if the taxable amount is indicated on the 1099-R. The Advanced level covers computing the taxable amount.</p>	<p>Visuals:</p> <p>Student Landing Page questions</p> <p>Form 1099-R, box 7 and 2a</p> <p>Form 5329</p> <p>Form 1040, lines 15-16</p> <p>Pub 4012, Income tab, 1099-R Pension and Annuity Income</p> <p>Internet:</p> <p>L&LT Retirement Income, Retirement Income Documents</p>

Direct students to Pub 4012, 1099-R Pension and Annuity Income.

Remind students that any amount from box 4 of Forms 1099-R, CSA- and CSF-1099-R is entered in the Payments section of the return.

Retirement Plan Distributions

Review L< topic Retirement Plan Distributions.

Visuals:

[Form 1099-R](#)

Remind students that, if the payer did not include the taxable amount in box 2a of Forms 1099-R, CSA- or CSF-1099-R, or if the taxpayer has Form RRB 1099-R, they will have to compute the taxable portion of the distribution.

Pub 4012, Income tab, [1099-R Exclusion Worksheet](#)

Internet:

[L< Retirement Income](#), Retirement Plan Distributions

Emphasize the difference between before-tax and after-tax contributions, and how the difference determines if the distribution is taxable.

Review the table regarding taxable and nontaxable contributions and distributions in this topic.

Direct students to Pub 4012, 1099-R Exclusion Worksheet.

Taxable IRA Distributions

Review L< topic Taxable IRA Distributions.

Visuals:

[Form 1040](#), Page 1 Income section

[Form 8606](#), Nondeductible IRAs

Ask: What is the difference between distributions from Roth IRA and a traditional IRA? **Answer:** Generally, Roth IRA distributions are tax-free if requirements are met. Traditional IRA distributions may be fully or partially taxable.

[Pub 590](#), Is the Distribution from Your Roth IRA?

Internet:

[L< Retirement Income](#), Taxable IRA Distributions

Caution students that SIMPLE and SEP IRAs are out of scope, and that taxpayers who made nondeductible contributions to an IRA or received taxable Roth IRA distributions should be referred to a professional tax preparer.

Reporting IRA Distributions	<p>Review L&LT topic Reporting IRA Distributions.</p> <p>Direct students to the explanations of the codes for Form 1099-R, box 7 in the TaxWise software, or on the back of Form 1099-R.</p> <p>Emphasize that distributions that are rolled over directly into other qualified plans (code G in box 7) are not taxable.</p> <p>Direct students to IRS.gov Tax Topics about rollovers.</p> <p>Remind students that the provision applying to transfers of IRA distributions to charity will end after 2013.</p> <p>Demonstrate reporting IRA distributions using TaxWise</p>	<p>Visuals: Form 1040, line 15 Form 1099-R, box 7 Pub 4012, Income tab, 1099-R Exclusion Worksheet Pub 590</p> <p>Internet: L&LT Retirement Income, Reporting IRA Distributions Tax Topics: Rollovers from Retirement Plans</p> <p>TaxWise Demo: Link to Form 1099-R Exclusion worksheet for rollovers</p>
Taxable Pensions and Annuities	<p>Review L&LT topic Taxable Pensions and Annuities.</p> <p>Ask: When are pension or annuity payments fully taxable? See topic for answer.</p> <p>Caution students that taxpayers who have been using the General Rule (instead of the Simplified Method) to figure the taxable portion of their pension or annuity payment should be referred to a professional tax preparer.</p> <p>Emphasize that the ages of both taxpayers must be used with a joint/survivor annuity.</p> <p>Ask: What is the difference between reporting disability income from a retirement plan when the taxpayer has reached minimum retirement age in contrast to a taxpayer who has not reached minimum retirement age? Answer: Disability income</p>	<p>Visuals: Form 1099-R Form CSA 1099-R Form RRB 1099-R Form 1040 Instructions, Simplified Method Worksheet Pub 4012, Income tab: <ul style="list-style-type: none"> • 1099-R Pension and Annuity Income • 1099-R Exclusion Worksheet Pub 575</p> <p>Internet: L&LT Retirement Income, Taxable Pensions and Annuities</p>

	<p>payments received after the taxpayer reaches minimum retirement age is treated as a pension (Form 1040, line 16a). Disability income payments received before minimum retirement age are treated as wages (Form 1040, line 7).</p>	
Other Retirement Income Issues	<p>Review L&LT topic Other Retirement Income Issues.</p> <p>Remind students that lump sum distributions are reported on Form 1099-R. Certain lump sum distributions with code A in box 7 qualify for special tax treatment. Taxpayers with this situation should be referred to a professional tax preparer.</p> <p>Remind students about the following codes on Form 1099-R, box 7:</p> <ol style="list-style-type: none"> 1: Early distribution – the additional tax may be applicable if no exception applies 2: Early distribution – exception applies 3: Disability 4: Death 	<p>Visuals:</p> <p>Form 5329</p> <p>Form 1099-R, box 7</p> <p>Pub 4012, Income tab, 1099-R Entry Variations Examples</p> <p>Internet:</p> <p>L&LT Retirement Income, Other Retirement Income Issues</p>
When to Adjust Withholding	<p>Review L&LT topic When to Adjust Withholding.</p> <p>Point out that, if a taxpayer owes \$1,000 or more in federal taxes, the volunteer should discuss the taxpayer's withholding and estimated tax options.</p>	<p>Visuals:</p> <p>Form W-4P</p> <p>Form W-4V</p> <p>Pub 505</p> <p>Internet:</p> <p>L&LT Retirement Income, When to Adjust Withholding</p> <p>IRS Withholding Calculator</p>

Summary	<p>Review the lesson summary with the class.</p> <p>Review the items that are out of scope for the VITA/TCE program.</p>	<p>Visuals:</p> <p>L&LT Retirement Income, Click Assessments icon to review Summary and Exercises</p>
Practice	<p>Select the practice exercise from Publication 4491-W for entering Form W-2 information.</p> <p>Ask students to select the problem based on their certification course of study.</p> <p>Verify they have correctly entered the income.</p>	<p>Publication 4491-W Basic Comprehensive Problem and Practice Exercises</p> <p>Publication 4491-W Advanced Comprehensive Problem and Practice Exercises</p>
References		
L<	Retirement Income; Form 1040, lines 15-16	
Form 1040	Form 1040 , Lines 15-16	
Form 1040 Instructions	Form 1040 Instructions	
Form 13614-C	Form 13614-C , Intake/Interview & Quality Review Sheet, Page 2, Part III	
Pub 4012	Pub 4012, Volunteer Resource Guide, Income tab Table A – Examples of Taxable Income 1099-R Pension and Annuity Income 1099-R Exclusion Worksheet 1099-R Entry Variations Examples	
Form 1099-R	Form 1099-R , Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.	
Form 5329	Form 5329 , Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts	
Form W-4P	Form W-4P , Withholding Certificate for Pension or Annuity Payments	
Form W-4V	Form W-4V , Voluntary Withholding Request	
Pub 17	Pub 17 , Part Two, Income	
Pub 4491-W	Pub 4491-W , Select a practice exercise for reporting retirement income	

Optional

Form W-2	Form W-2 , Wage and Tax Statement
Pub 505	Pub 505 , Tax Withholding and Estimated Tax
Pub 575	Pub 575 , Pension and Annuity Income
Pub 590	Pub 590 , Individual Retirement Arrangements (IRAs)

Recommended Classroom Activities



Tax Facts



Assessments



Media: Videos
& Audio



TaxWise
Tutorial



Job Aids



Practice
Lab



Tax Facts: Link & Learn Taxes Retirement Income

Click Tax Facts for a new way to access Link & Learn Taxes Retirement Income.



Assessments – Summary Exercise

Click Assessments for a new way to access the Summary and Exercises in Link & Learn Taxes Retirement Income.



Media: Video & Audio for Lesson

These videos explain the benefits of having an IRA.

- YouTube video: How IRAs Help to Increase Your Retirement Savings
- http://www.youtube.com/watch?v=Oq_Hj7tdZM0
- YouTube video: IRA Investment Decisions – What You Need to Know
- <http://www.youtube.com/watch?v=5-u3r3SEKIE>



TaxWise Tips and Resources for Lesson

TaxWise Screens	1099-R Pension and Annuity Income screen 1099-R Exclusion Worksheet 1099-R Entry Variations Examples
Practice Lab Tutorial	From the Practice Lab, select: <ol style="list-style-type: none"> 1. TaxWise IRS training 2. TaxWise Desktop Preparer with VITA/TCE Training menu or the TaxWise Online Preparer with VITA/TCE Training menu 3. Click the Income button, then click Part 2
TaxWise Solution Center	https://support.taxwise.com/



Job Aids

ITA and FAQs for Lesson

Interactive Tax Assistant	Interactive Tax Assistant http://www.irs.gov/uac/Is-My-Pension-or-Annuity-Payment-Taxable%3F
Tax Topics	Rollovers from Retirement Plans http://www.irs.gov/taxtopics/tc413.html
Tax Topics	Pensions and Annuities http://www.irs.gov/taxtopics/tc410.html
Other	IRS Withholding Calculator http://www.irs.gov/Individuals/IRS-Withholding-Calculator
References	References for L< Retirement Income http://apps.irs.gov/app/vita/content/11/references.jsp